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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

Arizona Corporation Commission
DOCKETED

APR 26 2013

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IN THE MATTER OF THE APPLICATION
OF SANDARIO WATER COMPANY, INC.
FOR AUTHORITY TO INCUR LONG-
TERM DEBT.

DOCKET NO. W-01831A-12-0467

**COMMENTS REGARDING STAFF
REPORT**

Sandario Water Company ("Sandario" or "Company") hereby responds to the
Staff Report.

Denial of Financing Application

Staff recommends denying Sandario's application for authority to incur long-term
debt ("Application") because the Company does not have adequate income to pay the
debt service. Sandario also has a pending rate case, which Staff acknowledges. But with
little explanation, Staff states "[t]he Company has objected to these dockets being
consolidated." This seems to give the impression that Staff's recommendation to deny
the Application is based upon the Company's choice. However, the Staff Report does not

1 explain the whole story.

2 The Company always anticipated that the rate and finance matters would be
3 consolidated, and always supported consolidation as is normally done. But in this case,
4 just three days before the Staff Report in the rate case was due, Staff explained that they
5 wanted to consolidate the rate and finance cases and they also wanted an unspecified
6 extension of time to file their report. The Company supported consolidation and did not
7 oppose a reasonable extension of time to file the Staff Report in the rate case. The
8 Company was also concerned that if the matters were consolidated, Staff might take the
9 position that a hearing was necessary, which would cause more delay and cost more
10 money. The Company explained it is in dire financial straits and needs new rates as
11 quickly as possible, so it could not agree to an open-ended extension of time, suspension
12 of the time clock, and potential hearing that it could not afford.

13 Effectively, Sandario was offered a choice between either: (A) have the matters
14 consolidated and agree to an open-ended extension for Staff to file its report and
15 potentially having to undergo the hearing process; or (B) keep the matters separate
16 understanding that Staff would recommend denial of the Application because Staff would
17 not recommend rates to support debt service. Given these two options, and needing new
18 rates desperately, Sandario chose moving forward with the rate case even if it meant
19 risking that Staff might oppose the financing. But Sandario should never have had to
20 make that choice – the matter should have been consolidated without an open-ended
21 extension.

1 In sum, Sandario needs the financing and never opposed consolidation – it
2 opposed undue delay. Stated another way, the Company supports consolidation as long
3 as it does not cause a material delay.
4

5 **Resolution of Dispute**

6 As the unfolding events have shown, the Company's position that Staff did not
7 need an open-ended extension to process both the rate and finance matters proved correct.
8 These matters can be consolidated now. No additional financial analysis will need to be
9 done because the financing will likely be handled through a surcharge. In fact, the
10 Company calculated the surcharge that would be needed to service the debt and related
11 WIFA expenses. *See* Exhibit 5 of the Application. Staff is very familiar with the WIFA
12 loan surcharge calculations and in a matter of minutes it could assess the Company's
13 proposal and arrive at its own alternative if it chose to do so. More importantly, the
14 Commission has recently issued decisions that simply recognize the surcharge formula as
15 part of the rates and the actual calculation is done after the WIFA loan is finalized. Thus,
16 all that has to be done is to simply adopt the appropriate surcharge formula.
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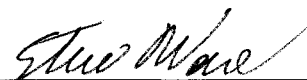
21 **Estimates of Cost**

22 Staff's recommendation is that the Company receive authority to finance \$45,000
23 less than requested by the Company. Sandario believes its estimate is more reasonable
24 and believes that Staff's estimate may not allow the Company to complete the necessary
25 work. The proposed construction will be bid and the Company has every reason to select
26 the lowest responsible bidder. The bid will determine how much these improvements
27 will cost. Certainly, the Company would like to have these improvements constructed
28

1 and spend less money. But the Company does not want to receive authority for an
2 amount that is too low. Stated another way, if the Company's higher estimate is wrong
3 and Staff is right, then there is no harm because there is authority to finance that amount.
4 In contrast, if the Company's estimate is right and Staff is wrong, then the Company
5 cannot borrow enough money to finish the project. Clearly, knowing that the Company's
6 proposal will cause no harm but offers more assurance that the project can be completed,
7 Sandario's position makes sense.
8

10 DATED this 26th day of April, 2013.

12 **MOYES SELLERS & HENDRICKS**

14 

15 Steve Wene

17 Filed with Docket Control this
18 26th day of April, 2013.

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